

## Message Text

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ACTION EB-08

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TAGS: EFIN VE

SUBJ: GOV PLANS TO BORROW ADDITIONAL \$1.4 BILLION

TO FINANCE MAJOR PROJECTS

REF: CARACAS 10099

1. THE GOV HAS ANNOUNCED IT WILL SEEK CONGRESSIONAL AUTHORIZATION TO BORROW BS 6 BILLION (\$1.4 BILLION) DURING 1978. THE MONEY IS EARMARKED FOR MAJOR INFRASTRUCTURE PROJECTS ALREADY UNDER CONSTRUCTION AND IS ADDITIONAL TO THE BS 19.4 BILLION (\$4.5 BILLION) AUTHORIZED UNDER THE PUBLIC CREDIT LAW PASSED IN AUG 76 FOR FINANCING MAJOR DEVELOPMENT PROGRAMS. PROJECTS TO BE FINANCED IN PART WITH THE PROCEEDS OF THE NEW BORROWINGS INCLUDE SEWERS, ROADS, AIRPORTS AND POSTS. THE GOVT PLANS TO PROGRAM THE FUNDS THRU ADDITIONAL CREDITS RATHER THAN REFORMULATE THE 1978 BUDGET BILL.

2. IN A PUBLIC DISCUSSION OF THE NEW PROPOSAL, FINANCE MINISTER SILVA LUONGO MADE IT CLEAR THE MONEY WAS NEEDED BECAUSE RESOURCES CURRENTLY AVAILABLE TO THE STATE WERE NOT SUFFICIENT TO FINANCE PLAN V PROGRAMS, AND THAT NO NEW PROJECTS WERE INCLUDED.

HE (OR OTHER GOV SOURCES) HAVE ATTRIBUTED PLAN V FINANCING

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SHORTFALLS TO:

-- RISING COSTS OF IMPORTED UNPUTS INTO THE DEVELOPMENT PROGRAM (ESTIMATED AT \$1.5 BILLION)

--A FAILURE ON THE PART OF SOME PUBLIC SECTOR ENTITIES TO GENERATE CAPITAL INTERNALLY IN THE AMOUNTS THAT HAD BEEN ANTICIPATED.

--DOMESTIC INFLATION, WHICH HAD RAISED COSTS OF LABOR AND OTHER

INPUTS.

--ADMINISTRATIVE BOTTLENECKS AND INEFFICIENCY WHICH HAVE  
DELAYED PROJECTS, THUS MAKING THEM MORE COSTLY.  
IN ADDITION, PLAN V ASSUMED ENACTMENT OF TAX REFORM LEGISLATION  
THAT WOULD BROADEN THE TAX BASE AND BRING ADDITIONAL REVENUE INTO  
THE TREASURY. IN FACT, THIS HASN'T HAPPENED, OF THE EIGHT-PART  
REFORM PROPOSAL TABLED LAST YEAR, ONLY PROPOSALS FOR CHANGES IN  
TAXES ON INCOME HAS ANY CHANCE FOR APPROVAL BY THE CONGRESS THIS  
YEAR. AND THE INCOME TAX BILL NOW PENDING BEFORE CONGRESS HAS  
HAD ALMOST ALL NEW REVENUE MEASURES DELETED.

3. WE ASSUME MOST OF THE BS 6 BILLION WILL BE BORROWED ABROAD,  
ALTHOUGH TIMING AND MODALITIES HAVE NOT BEEN ESTABLISHED. ACCORDING  
TO THE CENTRAL BANK, THE DOMESTIC MONEY MARKET HAS THE CAPACITY  
READILY TO ABSORB BS 2 BILLION IN NEW PUBLIC SECTOR ISSUANCES IN  
1978. THE GOV HAS ALREADY SCHEDULED OVER BS 2.5 BILLION  
FOR THE COMING YEAR.

4. THE ANNOUNCEMENT OF AN ADDITIONAL BORROWING REQUIREMENT WAS  
APPARENTLY AN EMBARRASSMENT TO FINANCE MINISTER SILVA LUONGO.  
AS LATE AS TEN DAYS AGO HE WAS INSISTENT THAT THE GOV WOULD  
HOLD THE LINE ON SPENDING, THAT ADDITIONAL CREDITS WOULD NOT  
BE SOUGHT EXCEPT IN CASES OF EMERGENCY, AND THAT THE 1978 BUDGET  
BILL WAS A REALISTIC DESCRIPTION OF GOV SPENDING LEVELS DURING  
THE COMING YEAR. HE WAS APPARENTLY UNAWARE OF THE NEED FOR  
ADDITIONAL RESOURCES, ALTHOUGH WE UNDERSTAND MINISTER LAURIA  
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TOLD SEVERAL JOURNALISTS TWO WEEKS AGO OF THE NEED FOR AN  
ADDITIONAL BS 6 BILLION.

5. COMMENT. THE NEED FOR ADDITIONAL FUNDS WAS NOT UNEXPECTED,  
ALTHOUGH FEW ANTICIPATED THE GOV WOULD ASK FOR AUTHORIZATION FOR  
BS 6 BILLION IN ADDITIONAL BORROWING AT THIS TIME. AS INDICATED  
IN REF, ALTHOUGH THE 1978 BUDGET BILL CALLED FOR TOTAL EX-  
PENDITURES IN 1978 OF ABOUT BS 44BILLION (\$10.25 BILLION),IN  
FACT WE EXPECT SPENDING TO BE CLOSER TO BS 50-52 BILLION(\$11.6-  
\$12.2 BILLION). NORMALLY, HOWEVER, THE GOV TENDS TO SPREAD REQUESTS  
FOR ADDITIONAL FUNDS THROUGHOUT THE YEAR RATHER THAN ANNOUNCE  
THE ENTIRE INCREASE AT ONCE. IF THIS IS ALL THE GOV WILL SEEK IN  
ADDITIONAL CREDITS, IT SHOULD NOT CAUSE MAJOR ECONOMIC PROBLEMS  
EVEN THOUGH THE ADDITIONAL CREDITS ARE DEBT FINANCED BECAUSE:  
A THE FUNDS ARE FO PROJECTS ALREADY UNDER WAY.  
B TOTAL GOV SPENDING IN EXCESS OF BS 50 BILLION FOR 1978 HAD  
ALREADY BEEN ANTICIPATED.  
C THE NEW MONEY REPRESENTS ONLY 5 PERCENT OF TOTAL PUBLIC SECTOR  
INVESTMENT UNDER PLAN V.

FURTHER, ASSUMING THE GOV BORROWS \$1 BILLION IN 1978 AND THE  
REMAINED IN 1979 AT ITS USUAL TERMS(7-YEAR TERM, 3-YEAR GRACE

PERIOD, 1 PERCENT OVER LABOR) AND THAT EXPORT INCOME REMAINS CONSTANT AT ABOUT \$9.3 BILLION ANNUALLY, TOTAL GOV DEBT SERVICE OBLIGATIONS SHOULD NOT EXCEED 20PERCENT OF EXPORT INCOME DURING THE NEXT FIVE YEARS. THIS SHOULD CAUSE NO PROBLEMS GIVEN VENEZUELA'S ASSURED PETROLEUM EARNINGS AND ITS EXCELLENT CREDIT RATING. LOCAL BANKERS TELL US THE BS 6 BILLION IN NEW REQUIREMENTS SHOULD BE PLACED WITHOUT MUCH TROUBLE. THIS IS THE FIRST TIME THE GOV HAS HAD TO SEEK PLAN V BORROWING AUTHORITY OVER THAT ORIGINALLY PROJECTED FOR DEVELOPMENT PROGRAMS.

6. IF, ON THE OTHER HAND, THIS IS JUST THE FIRST ROUND IN A SERIES OF NEW REQUIREMENTS, THEN THERE MAY BE DIFFICULTIES AHEAD. GIVEN THE RAPID RATE OF GROWTH OF IMPORTS AND THE FACT THAT VENEZUELA IS ENTERING A PERIOD OF BALANCE OF PAYMENTS DEFICIT, LIMITED OFFICIAL USE

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SERVICE ON OUTSTANDING AND CURRENTLY PLANNED DEBT IS ABOUT ALL THEY CAN MANAGE HANDILY. ANY ADDITIONAL MAJOR INCREASES IN DEBT SERVICE OBLIGATIONS WILL BE DIFFICULT (BUT CERTAINLY NOT IMPOSSIBLE) TO HANDLE, ESPECIALLY DURING THE EARLY 1980'S WHEN DEBT SERVICE OBLIGATIONS ARE CURRENTLY PROJECTED TO PEAK OUT. PRECEDENCE WOULD SEEM TO DICTATE THAT ANY FUTURE RESOURCE SHORTFALLS BE MADE UP BY MEANS OTHER THAN DEBT FINANCING.

7. POLITICAL REPERCUSSIONS OF THE GOVT'S ANNOUNCEMENT MAY BE SIGNIFICANT. CERTAINLY IT HAS UNDERMINED TO SOME DEGREE THE CREDIBILITY OF THE MINISTER OF FINANCE AND STIMULATED A BROAD PUBLIC DISCUSSION OF THE GOVT'S ABILITY TO MANAGE THE NATION'S FINANCES. COPEI THE MAJOR OPPOSITION PARTY, HAS ANNOUNCED IT WILL NOT SUPPORT THE GOVT'S REQUEST. THE CHAMBER OF DEPUTIES PLANS TO HOLD HEARING ON THE NEED FOR ADDITIONAL FUNDS, TO INCLUDE APPEARANCES BY THE PRESIDENT OF THE CENTRAL BANK, MINISTER OF FINANCE, THE CONTROLLER GENERAL AND THE MINISTER OF TRANSPORTATION AND COMMUNICATIONS. THE HEARINGS WILL PROBABLY BE CHAIRED BY A COPEI DEPUTY (LEONARDO FERRER), WHO MAY BE EXPECTED TO GET AS MUCH POLITICAL MILEAGE OUT OF THE ISSUE AS POSSIBLE.  
CROWLEY

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## Message Attributes

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